

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Rochester Community School District	County Oakland
Fiscal Year End 6/30/06	Opinion Date October 20, 2006	Date Audit Report Submitted to State November 15, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

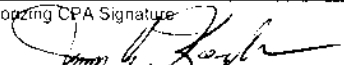
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	None to report.	
Other (Describe)	<input type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Doeren Mayhew		Telephone Number (248) 244-3000	
Street Address 755 West Big Beaver Road, Suite 2300		City Troy	State MI
		Zip 48084	
Authorizing CPA Signature 		Printed Name James A. Koepke	License Number 1101012623



**ROCHESTER COMMUNITY SCHOOL
DISTRICT, MICHIGAN**

FINANCIAL STATEMENTS

JUNE 30, 2006

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Independent Auditor's Report

To the Board of Education of the
Rochester Community School District, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund and the aggregate remaining fund information of the Rochester Community School District, Michigan as of June 30, 2006 and for the year then ended, which collectively comprise the School District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Rochester Community School District, Michigan's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

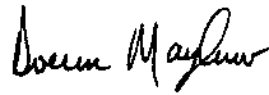
In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund and the aggregate remaining fund information of the Rochester Community School District, Michigan as of June 30, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 3 through 13 and page 42, respectively, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

DOEREN MAYHEW

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Rochester Community School District, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 20, 2006 on our consideration of the Rochester Community School District, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



DOEREN MAYHEW

October 20, 2006
Troy, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The Rochester Community School District 63260 (the "School District") is a public school district in the State of Michigan. The School District resides in both Oakland and Macomb counties. The School District is steward over the education of more than 14,500 grade K-12 area students. In support of the educational programs offered, the School District employs approximately 2,000 employees and operates 13 elementary schools, four middle schools, three high schools, one alternative education high school, and one adult education facility. The School District resides in a mostly urban area and is surrounded by areas of manufacturing, retail, and recreation.

Management's Discussion and Analysis

This section of the Rochester Community School District, Michigan's annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2006. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Rochester Community School District, Michigan financially as a whole. The district-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances at year end and a long-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant funds-the General Fund, Debt Service Fund, and Capital Projects Fund, with all other funds presented in one column as "other" funds. The remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and support organizations. The financial section of the annual report contains the following:

Using this Annual Report - Continued

Management's Discussion and Analysis (MD & A)
(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplementary Information)
Budgetary Information for the General Fund

Other Supplemental Information

Reporting the School District as a Whole - District-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

These two statements report the School District's net assets, which is one way to measure the School District's financial health, or financial position. Over time, increases or decreases in the School District's net assets are indicators of whether its financial health is improving or deteriorating. Note that the real property, buildings, and land owned by the School District are valued at their purchase price less depreciation. Aged buildings will have a very low "value" and land does not appreciate or depreciate. This reporting meets all accounting standards but would not be considered an accurate appraisal, or market value.

The School District's goal is to provide education to students, not to generate profits as commercial entities do. Sound financial practices and prudent use of public funds protect the ability of the School District to provide a strong foundation for future operations. Beyond financial factors, the quality of the education provided, the School District's programs and initiatives, student learning, the safety of the schools, and condition of physical plants should be considered to assess the overall health of the School District.

Reporting the School District as a Whole - District-wide Financial Statements - Continued

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, athletics, and food services. These activities are funded by property taxes, unrestricted state aid (foundation allowance revenue), and local, state, and federal grants.

Reporting the School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds, not the School District as a whole. Some funds are required by State law; however, the School District may establish funds to help it control and manage money for particular purposes (the Food Services and Athletics Funds are examples). The governmental funds of the School District use the following accounting approach:

Governmental funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the unreserved fund balances left at year end available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

The School District as an Agent

The School District is the agent for its student activity and support organization funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2006 and 2005:

Table I		
Rochester Community School District, Michigan		
Net Assets - Governmental Activities		
June 30, 2006 and 2005		
	<u>2006</u>	<u>2005</u>
Assets		
Current and Other Assets	\$ 82,434,234	\$ 115,983,116
Capital Assets	<u>263,923,557</u>	<u>236,610,138</u>
Total Assets	346,357,791	352,593,254
Liabilities		
Current Liabilities	42,173,839	40,484,811
Long-term Liabilities	<u>248,610,134</u>	<u>260,905,083</u>
Total Liabilities	290,783,973	301,389,894
Net Assets		
Invested in Capital Assets, Net of Related Debt	10,444,576	34,569,601
Restricted	1,911,380	1,950,874
Unrestricted	<u>43,217,862</u>	<u>14,682,885</u>
Total Net Assets	<u>\$ 55,573,818</u>	<u>\$ 51,203,360</u>

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table II) of the School District's governmental activities is discussed below. The School District's net assets were \$55.6 million and \$51.2 million at June 30, 2006 and 2005, respectively. Capital assets, net of related debt totaling \$10.4 million, compares the original cost, less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets of \$1.9 million are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets, \$43.2 million, was unrestricted.

The School District as a Whole - Continued

The \$43.2 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. It means overall available resources are slightly more than all of our noncapital liabilities (compensated absences, for example). We have only 9.2 percent of total government expenses available to fund unexpected costs. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year-to-year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table II), which shows the changes in net assets for the years ended June 30, 2006 and 2005.

Table II		
Rochester Community School District, Michigan		
Changes in Net Assets		
For the Years Ended June 30, 2006 and 2005		
	<u>2006</u>	<u>2005</u>
Revenues		
Program Revenues		
Charges for services	\$ 9,100,644	\$ 8,245,873
Operating grants and contributions	23,490,886	22,280,146
General Revenues		
Property taxes	40,356,958	40,144,538
State aid	97,338,198	94,722,361
Other	<u>4,139,405</u>	<u>2,827,039</u>
Total Revenues	174,426,091	168,219,957
Expenses		
Instruction	84,692,752	76,450,718
Support services	56,461,835	53,583,650
Community services	3,202,993	3,117,708
Food services	3,551,265	3,436,367
Athletics	2,537,235	2,167,323
Interest on long-term debt	12,508,576	13,559,075
Depreciation (unallocated)	<u>7,100,977</u>	<u>6,738,157</u>
Total Expenses	<u>170,055,633</u>	<u>159,052,998</u>
Increase in Net Assets	<u>\$ 4,370,458</u>	<u>\$ 9,166,959</u>

The School District as a Whole - Continued

As reported in the statement of activities, the cost of all of our governmental activities this year was \$170.0 million. Certain activities were partially funded from those who benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions. We paid for the remaining "public benefit" portion of our governmental activities with \$40.4 million in taxes, \$97.3 million in State foundation allowance, and with our other revenues (i.e., interest and general entitlements). The School District experienced an increase in net assets of \$4.3 million.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of the School District's operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with available state resources.

The School District's Funds

As the School District completed this year, the governmental funds reported a combined fund balance of \$59.8 million which is a decrease of \$33.3 million from last year. The primary reason for the decrease is due to expenditures on building projects of \$36.1 million in 2005-2006.

The School District budgeted to operate at "break even" for the year ended June 30, 2006. General Fund fund balance increased \$1.2 million. Significant elements impacting current year operations are discussed in the General Fund budgetary highlights below.

Our nonmajor funds, consisting of school lunch, athletics, early retirement and bookstores, as a group remained stable from the prior year.

The Debt Service Fund showed a fund balance decrease of \$39,494 from the prior year. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. The Debt Service Fund fund balance can only be used to pay debt service obligations.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted in June (a schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements).

General Fund revenues combined to exceed the budget by \$0.3 million, or 0.2 percent. There were many variances from budget both over budget and under budget.

General Fund Budgetary Highlights - Continued

Local revenue sources exceeded budget by \$0.5 million, or 2.17 percent. The main sources for the variance were: \$0.2 million due to increased interest proceeds we received from higher interest rates and higher fund balance, and \$0.2 million from miscellaneous revenues which include reimbursements, staff payments for adult children insurance, fees, recycle. . ., \$0.1 million in tuitions that exceeded budget and \$0.1 million in community service fees that exceeded budget, contributions and rentals combined for a (\$0.1) million under budget.

State revenues exceeded the budget by \$0.2 million, or 0.2 percent, due to prior year adjustments.

Federal revenue sources combined for an actual amount (\$0.4) million, or (8.7) percent, under budget. This is due to Grants issued but not fully expended. These grants allow for spending over a second year and the School District will not lose this funding.

County and other revenues are the county taxes and any loan and note proceeds. This category had a variance of less than \$100,000.

The General Fund had budgeted for "transfers in" of \$119,000 which was from the School Lunch Fund to the General Fund for indirect costs. This transfer was not made for 2005-2006 in order for the School Lunch Fund to have an appropriate cash balance to start in the fall. The School Lunch Fund revenues were impacted by the changes in menu due to the new State nutrition guidelines.

General Fund expenditures during the year combined to create a savings of \$4.7 million, or 3.2 percent, of the budget. For a third year, staff purchased only what was necessary to meet operational needs and postponed any improvements, maintenance, or repairs that were not necessary for K-12 operations.

In review of the expenditure categories in comparison to budget, salary costs were \$0.8 million, or 1.0 percent, less than budget. This is the largest budget category and actual expenditures were approximately 57.8 percent of total expenditures.

The staff benefit budget is the next largest category. Benefits were \$1.2 million, or 3.3 percent, less than budget. There were several changes in the benefit programs this year. Several vendors providing insurance were bid, co-payments were changed, and staff were given options for health coverage (with full coverage requiring a contribution). Some staff no longer received vision benefits. Benefits cost 25.1 percent of the annual General Fund expenditures and were 43.4 percent of the salary expenditures. Salary and benefit expenditures together totaled \$119.8 million and equaled 83 percent of the General Fund expenditures.

The next category of expenditures is for paid professional services. The annual expenditures were \$1.0 million, or 18.0 percent, less than budget. There are multiple variances over and under budget. Three categories of this expenditure group make up over half of the savings: travel and conferences were \$0.2 million less than budget, management services for the employee benefits were \$0.2 million less than budget, and water and sewer were \$0.1 million less than budget. This group was 3.0 percent of all General Fund expenditures.

General Fund Budgetary Highlights - Continued

Repairs and rental services are the next category. As a group the expenditures were \$57,292 or 2.91 percent under budget. There are multiple variances over and under budget in this group. The largest savings was for \$43,839 or 31.7 percent in the equipment repair budget. This group was 1.3 percent of all General Fund expenditures.

Supplies expenditures were \$0.9 million, or 11.4 percent, less than budget. This savings is again due to prudent spending by our schools during the budget freeze and conservative budgeting. Supplies were 5.2 percent of all General Fund expenditures.

Capital expenditures for new equipment and furniture were \$75,482, or 2.1 percent, less than budget. There are multiple variances in this group both over and under budget. This group was 2.4 percent of all General Fund expenditures.

Debt and dues expenditures were \$0.3 million, or 9.7 percent, less than budget. All debt payments are required to be paid. Provision in the budget of \$0.2 million for workers' compensation agreements was charged to another category upon payment. Tax abatements were \$86,125, or 31.1 percent, less than budget. Debt and dues cost 2.0 percent of all General Fund expenditures.

Tuition and transfer expenditures were \$0.2 million, or 4.9 percent under budget. The largest part of the variance was based upon savings by athletics programs which reduced the transfer to that fund by \$187,316 or 5.8 percent. Tuition savings of \$30,169 or 2.7% were mostly due to changes in staffing at international academy and a decrease in dual enrollment tuition paid. This group was 3.1 percent of total General Fund expenditures.

Asset and Debt Administration

Capital Assets

At June 30, 2006 and 2005, the School District had \$263.9 million and \$236.6 million, respectively, invested in a broad range of capital assets with an individual worth of \$5,000 or more, including land, buildings, furniture and equipment. This amount represents a net increase (including additions, deductions and depreciation) of approximately \$27.3 million from last year. Table III summarizes these assets (more detailed information is found in Note 5).

Asset and Debt Administration - Continued

Capital Assets - Continued

Table III Rochester Community School District, Michigan Capital Assets As of June 30, 2006 and 2005		
	<u>2006</u>	<u>2005</u>
Land	\$ 9,144,814	\$ 9,144,814
Buildings and improvements	260,198,370	260,198,370
Furniture and equipment	5,264,560	4,977,194
Buses and other vehicles	8,171,706	7,024,700
Construction-in-progress	<u>37,722,001</u>	<u>5,871,725</u>
Total capital assets	320,501,451	287,216,803
Less accumulated depreciation	<u>56,577,894</u>	<u>50,606,665</u>
Net capital assets	<u>\$263,923,557</u>	<u>\$236,610,138</u>

Debt

At the end of this fiscal year, the School District had \$246.2 million in bonds outstanding versus \$256.2 million in the previous year. These bonds consisted of the following:

<u>Bond Issue</u>	<u>Bonds Outstanding</u>
1993 Refunding	\$ 12,505,000
1997 Bond Issue	24,675,000
2000 - Series I	20,090,000
2000 - Series II	5,300,000
2004 Refunding	107,125,000
2004 Bond Issue	56,120,000
2005 Bond Issue	<u>20,420,000</u>
Total bonds outstanding	<u>\$246,235,000</u>

Asset and Debt Administration - Continued

Debt - Continued

The 2005 Bond Issue is an advance refunding of a portion of the bond in the 2000 Series II. All of the above bonds are general obligation bonds. The State limits the amount of bonded indebtedness that school districts can issue to 15% of the assessed value of all its taxable property. This amount is significantly below the \$693,826,664 statutorily imposed limit.

Other obligations include accrued vacation pay, sick and terminal leave, early retirement incentives, and health and workers' compensation amounts. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Factors Bearing on the District's Future

Our elected school board and administration consider many factors when setting the School District's fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2006 fiscal year will be 25 percent and 75 percent of the February 2006 and September 2007 student counts, respectively. The budget is adopted in June 2006 for the 2006-2007 school year based on an estimate of students that will be enrolled in September 2006. Approximately 79 percent of total General Fund revenues are from the foundation allowance and the taxes collected locally based upon the state funding formula. Under state law, the School District cannot assess additional property tax revenue for general operation. As a result, the School District funding is heavily dependent on the State's funding formula and the State's ability to fund local school operations.

Once the final student count and related per pupil funding is validated, state law requires the School District to amend the budget if actual School District resources are not sufficient to fund original appropriations.

The State's fiscal year begins October 1st. Through a revenue-estimating conference, the State estimates revenues available to fund public education. If actual revenues are less than budget, a revenue shortfall may result in mid-year adjustments to school districts. Once the Department of Treasury formally notifies the governor of the shortfall, the legislature has 30 days to provide supplemental appropriation or adjust school district allocations. Based on recent experience, the School District had anticipated an increase of \$210 per pupil in the General Fund budget. However, recent estimates indicate that the State will not be able to fund this increase. As a result, the anticipated increase is expected to be reduced by the State. The total amount of the reduction cannot be determined at this time. As in the past, the School District will modify the budgeted expenditures as necessary to adjust for any state reductions and assure that we continue to operate on a plan that will result in adequate fund balance according to school board policy.

Factors Bearing on the District's Future - Continued

Early estimates for the 2007-2008 budget again reflect a small improvement in the state economy and the resulting revenues. An independent review of the employer-funded state employee retirement plan projects an increase of the employer contribution from 17.74 percent of salary to approximately 19.74 percent for all eligible employees. This situation poses a challenge for the School District.

As the School District faces the budget challenges of the current and upcoming school year, modifications to operations may be necessary. Our operational focus continues to be to provide the best possible education for our students within the means provided.

**BOARD OF EDUCATION
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**STATEMENT OF NET ASSETS
JUNE 30, 2006**

	<u>Governmental Activities</u>
Assets	
Cash and investments - unrestricted (note 3)	\$ 23,462,172
Cash on deposit with paying agent	2,137,411
Receivables	
Accounts receivable	402,510
Due from other governmental units	21,323,471
Inventories	237,445
Prepaid expenses and other	451,522
Cash and investments - restricted (note 9)	34,419,703
Capital assets, net of accumulated depreciation (note 5)	<u>263,923,557</u>
 Total assets	 346,357,791
 Liabilities	
Accounts payable	8,465,070
Accrued payroll and benefits	15,076,831
Due to other governmental units	319
Deferred revenue (note 4)	966,452
Long-term liabilities (note 7)	
Bonds and contracts payable - due within one year	13,826,271
Compensated absences - due within one year	3,838,896
Bonds and contracts payable - due in more than one year	239,652,710
Compensated absences - due in more than one year	<u>8,957,424</u>
 Total liabilities	 290,783,973
 Net Assets	
Invested in capital assets, net of related debt	10,444,576
Restricted for debt service	1,911,380
Unrestricted	<u>43,217,862</u>
 Total net assets	 <u>\$ 55,573,818</u>

See accompanying notes to financial statements

**BOARD OF EDUCATION
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006**

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (Expenses) Revenues and Change in Net Assets
Governmental activities				
Instruction	\$ 84,692,752	\$ -	\$ 15,923,782	\$ (68,768,970)
Support services	56,461,835	1,575,235	6,824,478	(48,062,122)
Food services	3,551,265	2,927,737	742,626	119,098
Athletics	2,537,235	837,601	-	(1,699,634)
Community services	3,202,993	3,760,071	-	557,078
Interest on long-term debt	12,508,576	-	-	(12,508,576)
Depreciation (unallocated)	7,100,977	-	-	(7,100,977)
Total governmental activities	<u>\$ 170,055,633</u>	<u>\$ 9,100,644</u>	<u>\$ 23,490,886</u>	(137,464,103)
General revenues				
Taxes				
Property taxes, levied for general purpose				16,982,070
Property taxes, levied for debt service				23,374,888
State aid not restricted to specific purposes				97,338,198
Interest and investment earnings				2,978,052
Other				1,161,353
Total general revenues				<u>141,834,561</u>
Change in Net Assets				4,370,458
Net Assets - July 1, 2005				<u>51,203,360</u>
Net Assets - June 30, 2006				<u>\$ 55,573,818</u>

See accompanying notes to financial statements

BOARD OF EDUCATION ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN

BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2006

ASSETS

	General Fund	Debt Service Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Cash and investments (note 3)	\$ 22,162,899	\$ 1,911,380	\$ 32,508,323	\$ 1,299,273	\$ 57,881,875
Cash on deposit with paying agent	2,137,411	-	-	-	2,137,411
Receivables					
Accounts receivable	395,246	-	3,447	3,817	402,510
Due from other governmental units	21,288,236	-	-	35,235	21,323,471
Due from other funds (note 6)	223	-	-	87,379	87,602
Inventories	135,850	-	-	101,595	237,445
Prepaid expenses and other	219,000	-	-	53,277	272,277
Total assets	\$ 46,338,865	\$ 1,911,380	\$ 32,511,770	\$ 1,580,576	\$ 82,342,591

LIABILITIES AND FUND BALANCES

Liabilities					
Accounts payable	\$ 2,177,730	\$ -	\$ 3,489,577	\$ 23,150	\$ 5,690,457
Accrued payroll and other liabilities	13,036,683	-	-	4,870	13,043,553
Retainage payable	-	-	2,773,111	-	2,773,111
Due to other governmental units	-	-	-	319	319
Due to other funds (note 6)	89,104	-	-	-	89,104
Deferred revenue (note 4)	927,751	-	-	36,701	966,452
Total liabilities	16,233,268	-	6,262,688	67,040	22,562,996
Fund Balances					
Reserved for					
Encumbrances	841,034	-	-	-	841,034
Inventories	135,850	-	-	101,595	237,445
Insurance escrow	2,137,411	-	-	-	2,137,411
Prepaid expenses	219,000	-	-	-	219,000
Capital projects	-	-	25,828,569	53,277	25,881,846
Debt payment	-	1,911,380	-	-	1,911,380
Unreserved					
Designated for					
Health care benefits	1,544,150	-	-	-	1,544,150
Account carryover	1,305,148	-	-	-	1,305,148
Subsequent year expenditures	4,397,003	-	-	-	4,397,003
Building projects	-	-	420,513	-	420,513
Self-funded sports programs	-	-	-	30,970	30,970
Early retirement benefits	-	-	-	1,094,690	1,094,690
Undesignated					
General fund	19,526,001	-	-	-	19,526,001
Special revenue funds	-	-	-	233,004	233,004
Total fund balances	30,105,597	1,911,380	26,249,082	1,513,536	59,779,595
Total liabilities and fund balances	\$ 46,338,865	\$ 1,911,380	\$ 32,511,770	\$ 1,580,576	\$ 82,342,591

See accompanying notes to financial statements

**BOARD OF EDUCATION
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
TO GOVERNMENTAL NET ASSETS
JUNE 30, 2006

Total fund balances - governmental funds	\$ 59,779,595
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported as assets in the funds:	
Cost of capital assets	320,501,451
Accumulated depreciation	(56,577,894)
Deferred bond issue costs recorded as an asset in the governmental activities - net of amortization	179,245
Long-term liabilities are not due and payable in the current period and are not reported as liabilities in the funds:	
Bonds and notes payable	(253,478,981)
Compensated absences	(12,796,320)
Accrued interest payable is not included as a liability in the governmental funds	<u>(2,033,278)</u>
Total net assets - governmental activities	<u><u>\$ 55,573,818</u></u>

See accompanying notes to financial statements

BOARD OF EDUCATION ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	General Fund	Debt Service Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Local sources	\$ 24,830,025	\$ 23,743,714	\$ 1,592,749	\$ 3,920,088	\$ 54,086,576
State sources	104,916,902	-	-	124,169	105,041,071
Federal sources	3,939,920	-	-	618,457	4,558,377
Interdistrict and other sources	10,740,067	-	-	-	10,740,067
Total revenues	144,426,914	23,743,714	1,592,749	4,662,714	174,426,091
Expenditures					
Current					
Instruction	76,747,955	-	-	-	76,747,955
Support services	58,960,208	-	-	-	58,960,208
Community services	3,202,993	-	-	-	3,202,993
Payments to public schools	1,431,738	-	-	-	1,431,738
Food services	-	-	-	3,551,265	3,551,265
Athletics	-	-	-	2,537,235	2,537,235
Bookstores	-	-	-	99,991	99,991
Early retirement	-	-	-	1,364,076	1,364,076
Debt service					
Principal	849,195	11,275,000	-	-	12,124,195
Interest	187,222	12,266,533	-	-	12,453,755
Other	-	370,023	1,851,873	-	2,221,896
Capital outlay	-	-	34,287,624	-	34,287,624
Total expenditures	141,379,311	23,911,556	36,139,497	7,552,567	208,982,931
Excess of Revenues Over (Under)					
Expenditures	3,047,603	(167,842)	(34,546,748)	(2,889,853)	(34,556,840)
Other Financing Sources (Uses)					
Proceeds from issuance of notes	1,132,241	-	-	-	1,132,241
Proceeds from refunding bonds	-	20,910,000	-	-	20,910,000
Payments to refunded bond escrow agent	-	(21,630,203)	-	-	(21,630,203)
Premium on issuance of refunding bonds	-	982,905	-	-	982,905
Discount on issuance of refunding bonds	-	(134,354)	-	-	(134,354)
Proceeds from sale of capital assets	40,419	-	-	-	40,419
Operating transfers - in (note 6)	-	-	-	3,052,327	3,052,327
Operating transfers - out (note 6)	(3,052,327)	-	-	-	(3,052,327)
Total other financing sources (uses)	(1,879,667)	128,348	-	3,052,327	1,301,008
Net Change in Fund Balances	1,167,936	(39,494)	(34,546,748)	162,474	(33,255,832)
Fund Balances - July 1, 2005	28,937,661	1,950,874	60,795,830	1,351,062	93,035,427
Fund Balances - June 30, 2006	\$ 30,105,597	\$ 1,911,380	\$ 26,249,082	\$ 1,513,536	\$ 59,779,595

See accompanying notes to financial statements

**BOARD OF EDUCATION
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Total net change in fund balances - governmental funds	\$ (33,255,832)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Depreciation expense	(7,100,977)
Capital outlays subject to capitalization	34,423,364
Governmental funds report proceeds from the sale of assets as revenue; in the statement of activities, these are recorded net of the carrying value of disposed assets	(8,968)
Long-term debt issuance is reported as an other financing source in the governmental funds. Long-term debt is not a revenue in the statement of activities and is reported as a long-term liability in the statement of net assets	(22,042,241)
Accrued interest is recorded in the statement of activities when it is incurred; it is not reported in governmental funds until it is paid	(54,821)
Repayment of bond and note principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	31,724,195
Decreases in payroll-related compensated absences and arbitrage obligations are reported as expenditures when financial resources are used in the governmental funds	389,371
Amortization of bond premium in the statement of activities	308,317
Amortization of bond issue costs in the statement of activities	(11,950)
Change in net assets - governmental activities	<u>\$ 4,370,458</u>

See accompanying notes to financial statements

**BOARD OF EDUCATION
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**STATEMENT OF ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2006**

Assets

Cash and investments (note 3)	\$ 730,747
Due from other funds	<u>1,727</u>
Total assets	<u><u>\$ 732,474</u></u>

Liabilities

Accounts payable	\$ 26,826
Due to student groups	684,994
Due to other support organizations	19,899
Due to other governmental units	691
Due to other funds	<u>64</u>
Total liabilities	<u><u>\$ 732,474</u></u>

See accompanying notes to financial statements

**BOARD OF EDUCATION
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 1 - Significant Accounting Policies

The accounting policies of the Rochester Community School District, Michigan (the School District) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies used by the School District:

A. Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational and financial relationships that determine which of the governmental organizations are part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on application of the criteria, the entity does not contain any component units.

B. District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. Substantially all interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the School District's government-wide activities are considered governmental activities.

**BOARD OF EDUCATION
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 1 - Significant Accounting Policies - Continued

B. District-wide and Fund Financial Statements - Continued

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenue are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, although the fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-wide Financial Statements

The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The effect of interfund activity has been substantially eliminated from the district-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

**BOARD OF EDUCATION
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 1 - Significant Accounting Policies - Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation - Continued

Fund-based Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as required under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, retirement-related payments and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are custodial in nature (assets equal liabilities) and do not report the measurement of results of operations.

The School District reports the following major governmental funds:

The General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

**BOARD OF EDUCATION
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 1 - Significant Accounting Policies - Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation - Continued

Fund-based Financial Statements - Continued

The Debt Service Fund is used to record tax, interest, and other revenue for payment of interest, principal, refunding of debt, and other expenditures on the School District's bond issues. The fund accounts for debt service payments for the 1993 Refunding, 1997, 2000 Series I and II, 2004 Refunding Bonds, 2004 Building and Site Building Bond and the 2005 Refunding Bond issues.

The Capital Projects Fund is used to record bond proceeds and other revenue and the disbursement of money specifically designated for acquiring new school sites, constructing buildings or additions, purchasing buildings, equipping, and for remodeling. These funds operate until the purpose for which they were created is accomplished. Defined bond issues within the Capital Projects Fund include the 2000 Series I Bond Issue, the 2000 Series II Bond Issue (issued November 2001) and the 2004 Building and Site Bond Issue. In addition, the fund records certain public improvement activities.

Additionally, the School District reports the following nonmajor governmental fund types:

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School District's Special Revenue Funds include the Food Services, Athletics, Bookstores and Early Retirement Funds. Any operating deficit generated by these activities is the responsibility of the General Fund.

The Fiduciary Funds are the Student Activities Fund and Support Organizations Fund whose funds are not available for use by the School District.

Special Items include transactions within the control of management that are either unusual in nature or infrequent in occurrence which are reported as special items in the statement of activities.

**BOARD OF EDUCATION
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 1 - Significant Accounting Policies - Continued

D. Assets, Liabilities, and Net Assets or Equity

Deposits and Investments

Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. The School District has funds on deposit with its third-party administrators in accordance with self-insurance requirements.

Receivables and Payables

In general, outstanding balances between funds are reported as "due to/from other funds". Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as advances to/from other funds.

The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts has been recorded. Property taxes are assessed on July 1st for taxes due August 15th and December 1st. Taxes are considered delinquent on March 1st of the following year at which time penalties and interest are assessed and the total obligation is added to county tax rolls. Local tax units fully fund the School District for real property taxes. Any receivables for personal property taxes are not material to the School District's financial statements and are not recorded in the financial statements.

Inventories and Prepaid Items

Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. The United States Department of Agriculture commodities inventory received by the Food Services Fund is recorded as an expenditure and recognized as revenue annually.

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**BOARD OF EDUCATION
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 1 - Significant Accounting Policies - Continued

D. Assets, Liabilities, and Net Assets or Equity - Continued

Restricted Assets

Unspent bond and public improvement proceeds and related interest on the Capital Projects Fund have legal requirements to be spent for specific building and building-related purposes and are restricted assets.

Capital Assets

Capital assets, which include land, buildings, equipment, construction-in-progress, and vehicles, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the School District as assets with an individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have any infrastructure-type assets.

Buildings, improvements other than buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	25 - 45 years
Buses and other vehicles	6 years
Furniture and other equipment	5 - 15 years

Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual vacation, termination and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

**BOARD OF EDUCATION
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 1 - Significant Accounting Policies - Continued

D. Assets, Liabilities, and Net Assets or Equity - Continued

Risk Obligations

The School District is self-insured regarding both workers' compensation and health insurance. Long-term debt includes the calculated amount of possible claimed and unclaimed amounts for the period based on history of the School District and other similar institutions. These obligations are recognized in the governmental funds when they become due for payment.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and are amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as Capital Projects Fund expenditures.

The School District offers an early retirement benefit. The known cost of future employee benefits is included with long-term debt. Nonvoted debt with a payment period of over 12 months and current value of arbitrage payable to the Internal Revenue Service are also included in long-term debt.

Compensated absences and early retirement obligations are recognized in the governmental funds when they become due for payment.

**BOARD OF EDUCATION
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 1 - Significant Accounting Policies - Continued

D. Assets, Liabilities, and Net Assets or Equity - Continued

Fund Equity

In the fund financial statements, governmental funds report reservation of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 - Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles in the United States of America for the General Fund, Special Revenue Funds, and Debt Service Fund. State law does not require the School District to adopt a budget for the Debt Service Fund. All annual appropriations lapse at the fiscal year end. Capital project budgets are approved at the time of bond issue for the life of the bond.

Annually, budget balances are estimated and entered for the specific bond issues and projects.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. Budget transfers between functions may not exceed \$100,000 without board approval. State law requires the School District to have its budget in place by July 1st. Expenditures in excess of amounts budgeted are a violation of Michigan law. Revenues may legally exceed budget. State law permits a district to amend its budgets during the year. The School District amended budgeted amounts during the year to reflect actual activity based on student enrollment and operations.

**BOARD OF EDUCATION
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 2 - Stewardship, Compliance and Accountability - Continued

Budgetary Information - Continued

Encumbrance accounting is employed in governmental funds. Encumbrances for purchase orders and contracts outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of the year end.

Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Capital Projects Fund Compliance

The Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. Outstanding bond issues include the 2000 Series I, 2000 Series II and the 2004 Building and Site Bonds. For these capital project activities, the School District has complied with the applicable provisions of Section 1351a of the State of Michigan's School Code. Beginning with the year of bond issuance, the School District has reported the annual construction activity in the Capital Projects Fund.

Note 3 - Deposits and Investments

State statutes authorize the School District to make deposits in the account of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The School District is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

The School District has designated 14 banks for the deposit of its funds.

**BOARD OF EDUCATION
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 3 - Deposits and Investments - Continued

The School District's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. At year end, the School District's deposit balance of \$29,691,412 had \$29,591,412 of bank deposits (certificates of deposit, checking, and savings accounts) that were insured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments

Custodial credit risk is that risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District does not have a policy regarding credit risk. At June 30, 2006, the School District does not have investments with custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District does not have a policy restricting investment maturities. The School District minimizes interest rate risk by requiring the structuring of the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the School District's cash requirements.

**BOARD OF EDUCATION
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Note 3 - Deposits and Investments - Continued

Credit Risk

State law limits investments in commercial paper to the top two rating issued by nationally recognized statistical rating organizations. The School District does not have a policy that addresses credit risk.

At year end, all investments were U.S. Government or Agency bonds or notes with a Standard & Poor rating of AAA. The description, fair value, and maturity of investments held at June 30, 2006 are as follows:

<u>Name of Investment/Description</u>	<u>Fair Value</u>	<u>Maturity</u>
Federal Home Loan Bank	\$ 994,063	4/30/07
Federal Home Loan Bank	695,844	4/30/07
Federal National Mortgage Association	1,692,563	2/23/07
Federal Home Loan Bank	995,000	1/30/07
Federal Home Loan Mortgage Corporation	1,715,297	9/15/06
Federal Home Loan Bank	1,719,609	11/10/06
Federal Home Loan Bank	1,650,000	11/28/06
Federal Home Loan Bank	992,500	3/16/07
Federal Home Loan Mortgage Corporation	1,699,954	5/21/07
Federal Home Loan Mortgage Corporation	701,597	1/30/07
Federal Home Loan Bank	1,977,308	7/7/06
Federal Home Loan Bank	1,675,953	10/16/06
Federal National Mortgage Association	1,901,745	8/9/06
Federal National Mortgage Association	1,509,108	6/22/07
Federal Home Loan Bank	1,755,209	8/15/07
Federal Home Loan Bank	282,988	9/14/07
Federal National Mortgage Association	1,758,186	7/15/07
Federal Home Loan Bank	701,750	3/16/07
Federal Home Loan Mortgage Corporation	997,500	4/30/07
Federal National Mortgage Association	999,219	9/22/06
Federal National Mortgage Association	450,000	8/23/07
Federal Home Loan Mortgage Corporation	996,500	9/14/07
Federal Home Loan Mortgage Corporation	498,750	11/22/06
Federal Home Loan Bank	<u>393,600</u>	3/16/07
Total	<u>\$ 28,754,243</u>	

**BOARD OF EDUCATION
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 3 - Deposits and Investments - Continued

Concentration of Credit Risk

The School District places no limit on the amount it may invest in any one issuer. The School District does not have a policy that minimizes concentration of credit risk. More than 5 percent of the School District's investments were held in the following securities:

- Federal National Mortgage Association = 28.9%
- Federal Home Loan Bank = 48.1%
- Federal Home Loan Mortgage Corporation = 23.0%

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. State law prohibits investment in foreign currency.

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, deferred revenue consists of fees for services received prior to meeting spending restrictions or providing the related services.

	<u>Unearned</u>
Fees and receipts for 2006-2007 summer programs	\$ 849,491
Grant, categorical aid, and other payments received prior to meeting all eligibility requirements	<u>116,961</u>
Total	<u>\$ 966,452</u>

**BOARD OF EDUCATION
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 5 - Capital Assets

Capital assets activity for the School District's governmental activities is reflected in the following table. Depreciation expense was not charged to activities as the School District considers its assets to impact multiple activities and allocation is not practical.

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Reductions/ Disposals</u>	<u>Balance June 30, 2006</u>
Assets not being depreciated:				
Land	\$ 9,144,814	\$ -	\$ -	\$ 9,144,814
Construction-in-progress	<u>5,871,725</u>	<u>31,850,276</u>	<u>-</u>	<u>37,722,001</u>
Total assets not being depreciated	15,016,539	31,850,276	-	46,866,815
Capital assets being depreciated:				
Buildings and improvements	251,683,729	-	-	251,683,729
Site improvements	8,514,641	-	-	8,514,641
Buses and other vehicles	7,024,700	2,285,722	(1,138,716)	8,171,706
Furniture and equipment	<u>4,977,194</u>	<u>287,366</u>	<u>-</u>	<u>5,264,560</u>
Subtotal	<u>272,200,264</u>	<u>2,573,088</u>	<u>(1,138,716)</u>	<u>273,634,636</u>
Accumulated depreciation:				
Buildings and improvements	39,378,123	5,539,828	-	44,917,951
Site improvements	3,140,954	425,732	-	3,566,686
Buses and other vehicles	5,132,118	911,852	(1,129,748)	4,914,222
Furniture and equipment	<u>2,955,470</u>	<u>223,565</u>	<u>-</u>	<u>3,179,035</u>
Subtotal	<u>50,606,665</u>	<u>7,100,977</u>	<u>(1,129,748)</u>	<u>56,577,894</u>
Net capital assets being depreciated	<u>221,593,599</u>	<u>(4,527,889)</u>	<u>8,968</u>	<u>217,056,742</u>
Net capital assets	<u>\$236,610,138</u>	<u>\$ 27,322,387</u>	<u>\$ 8,968</u>	<u>\$263,923,557</u>

**BOARD OF EDUCATION
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 5 - Capital Assets - Continued

Construction Commitments

The School District had multiple bond issues with active construction projects at year end. All bond issue proceeds are reserved to fund the projects and Capital Projects Fund balance reserves is expected to be adequate to complete all current projects. At year end, construction commitments totaled \$26,426,819. These commitments are included in the fund balance reserve of capital projects.

Note 6 - Interfund Receivables, Payables and Transfers

The composition of interfund balances is as follows:

<u>Funds Due To</u>	<u>Funds Due From Nonmajor Governmental Funds</u>
General Fund	\$ 223
Nonmajor Governmental Funds	<u>87,379</u>
Total	<u>\$ 87,602</u>

The composition of interfund balances represents routine and temporary cash flow assistance from the General Fund. In addition, balances owed to the General Fund are a result of reimbursement for payroll liabilities that were transferred after year end.

	<u>Transfers - Out General Fund</u>
Transfers - in:	
Nonmajor Governmental Funds	<u>\$ 3,052,327</u>

**BOARD OF EDUCATION
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Note 6 - Interfund Receivables, Payables and Transfers - Continued

The nature of interfund transfers represents amounts transferred between the General Fund and the nonmajor governmental funds during the year. The General Fund supports the activity of both the Athletics and Early Retirement Funds.

Note 7 - Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General Obligation Bonds are direct obligations and pledge the full faith and credit of the School District. Notes and installment purchase agreements are also general obligations of the School District. Other long-term liabilities include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

Long-term obligation activity can be summarized as follows:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2006</u>	<u>Due Within One Year</u>
Governmental Activities					
Bonds	\$ 256,200,000	\$ 20,910,000	\$ 30,875,000	\$ 246,235,000	\$ 12,790,000
Plus bond premium deferral amounts	<u>4,656,527</u>	<u>-</u>	<u>308,317</u>	<u>4,348,210</u>	<u>308,317</u>
Total bonds payable	260,856,527	20,910,000	31,183,317	250,583,210	13,098,317
Notes payable	2,612,725	1,132,241	849,195	2,895,771	727,954
Other obligations	<u>13,185,691</u>	<u>476,454</u>	<u>865,825</u>	<u>12,796,320</u>	<u>3,838,896</u>
Subtotal nonbond	<u>15,798,416</u>	<u>1,608,695</u>	<u>1,715,020</u>	<u>15,692,091</u>	<u>4,566,850</u>
Total long-term debt	<u>\$ 276,654,943</u>	<u>\$ 22,518,695</u>	<u>\$ 32,898,337</u>	<u>\$ 266,275,301</u>	<u>\$ 17,665,167</u>

**BOARD OF EDUCATION
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Note 7 - Long-Term Debt - Continued

The annual requirements to service the bonds outstanding to maturity, including both principal and interest, are as follows:

<u>Year Ending June 30th:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 12,790,000	\$ 12,109,458	\$ 24,899,458
2008	14,965,000	11,487,571	26,452,571
2009	14,405,000	10,766,651	25,171,651
2010	16,745,000	10,010,395	26,755,395
2011	18,410,000	9,142,664	27,552,664
2012 - 2016	98,760,000	31,461,200	130,221,200
2017 - 2021	68,300,000	7,823,225	76,123,225
2022	<u>1,860,000</u>	<u>79,050</u>	<u>1,939,050</u>
Total	<u>\$ 246,235,000</u>	<u>\$ 92,880,214</u>	<u>\$ 339,115,214</u>

General obligation bonds consist of the following:

<u>Bond Issue</u>	<u>Original Issue</u>	<u>Principal Payment Range</u>	<u>Interest Range</u>	<u>Last Payment</u>	<u>Balance June 30, 2006</u>
2005 Debt Refunding	\$ 20,910,000	\$85,000-\$1,935,000	3.00%-5.00%	2022	\$ 20,420,000
2004 Bond	60,570,000	\$750,000-\$4,600,000	3.00%-5.00%	2020	56,120,000
2004 Debt Refunding	107,560,000	\$215,000-\$13,615,000	2.00%-5.00%	2019	107,125,000
2000-Series II	28,630,000	\$100,000-\$1,900,000	3.75%-5.00%	2022	5,300,000
2000-Series I	83,490,000	\$275,000-\$6,000,000	5.50%-5.60%	2019	20,090,000
1997 Bond	100,575,000	\$3,000,000-\$7,500,000	5.00%-5.875%	2019	24,675,000
1993 Debt Refunding	42,740,000	\$3,925,000-\$3,975,000	5.50%-5.625%	2011	<u>12,505,000</u>
Total bond debt					<u>\$ 246,235,000</u>

**BOARD OF EDUCATION
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 7 - Long-Term Debt - Continued

Notes consist of the following:

<u>Note</u>	<u>Original Issue</u>	<u>Principal Payment</u>	<u>Last Payment</u>	<u>Balance June 30, 2006</u>
2006 buses	\$ 1,132,241	\$ 189,741	2011	\$ 942,500
Sheldon Road	400,000	40,000	2012	240,000
2002 buses	988,143	196,000	2007	196,000
2005 buses	1,820,725	303,454	2011	<u>1,517,271</u>
Total note debt				<u>\$ 2,895,771</u>

Other governmental activities long-term obligations include the following:

Payroll-related long-term debt:

Early retirement incentive	\$ 6,570,012
Sick leave	2,102,227
Terminal leave	639,059
Vacation	572,708
Health care	2,705,660
Workers' compensation	<u>206,654</u>

Total \$ 12,796,320

Advance and Current Refundings

During the year, the School District issued \$20,190,000 in general obligation bonds with an average interest rate of 4.1%. The proceeds of these bonds were used to advance refund of \$19,600,000 of the outstanding 2000 Series II bonds with an average interest rate of 5.45%. The net proceeds (after underwriting, insurance and other issuance costs) were used to purchase U.S. government securities and were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the original bonds. As a result, the portion of the bonds that were refunded is considered to be defeased and the liability for those bonds has been removed from the School District's long-term obligations.

BOARD OF EDUCATION ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

Note 8 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District participates in the Metropolitan Association for Improved School Legislation (MAISL) risk pool for claims relating to property loss, torts, and errors and omissions; the School District is self-insured for medical claims and workers' compensation. In all cases, the School District carries stop-loss coverage. Settled claims relating to the commercial insurance have not exceeded the amount of School District insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

For risk retention situations, the School District estimates the liability for workers' compensation and medical claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in long-term debt (in Note 7) until considered due, whereas the obligations then become governmental fund liabilities. Changes in the estimated liability are as follows:

Changes in health care estimated liability are as follows:

	<u>2006</u>	<u>2005</u>
Estimated liability - Beginning of year	\$ 2,675,876	\$ 2,935,333
Estimated claims incurred, including changes in estimates	13,556,964	13,119,922
Claim payments	<u>(13,527,180)</u>	<u>(13,379,379)</u>
Estimated liability - Ending of year	<u>\$ 2,705,660</u>	<u>\$ 2,675,876</u>

**BOARD OF EDUCATION
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Note 8 - Risk Management - Continued

Changes in workers' compensation estimated liability are as follows:

	<u>2006</u>	<u>2005</u>
Estimated liability - Beginning of year	\$ 568,678	\$ 520,141
Estimated claims incurred, including changes in estimates	15,618	349,949
Claim payments	<u>(377,642)</u>	<u>(301,412)</u>
Estimated liability - Ending of year	<u>\$ 206,654</u>	<u>\$ 568,678</u>

Note 9 - Restricted Assets

The balances of the restricted cash and investment asset accounts are as follows:

	<u>Total</u>
Unspent bond proceeds and related interest	\$ 32,508,323
Debt service funds	<u>1,911,380</u>
Total restricted assets	<u>\$ 34,419,703</u>

**BOARD OF EDUCATION
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 10 - Defined Benefit Pension Plan and Postretirement Benefits

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPERS), which is a cost-sharing multiple employer, state-wide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPERS provides retirement, health, survivor, and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the MPERS at P.O. Box 30171, Lansing, Michigan 48909-7671.

Funding Policy

Employer contributions to MPERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 14.87 percent and 16.34 percent of the covered payroll to the plan for the periods from July 1, 2005 through September 30, 2005 and October 1, 2005 through June 30, 2006, respectively. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPERS plan for the years ended June 30, 2006, 2005 and 2004 were \$13,901,587, \$12,074,209 and \$10,454,084, respectively.

Postemployment Benefits

Under the MPERS Act, all retirees participating in the MPERS pension plan are covered under the state benefit plan for health, dental, and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPERS plan discussed above.

**BOARD OF EDUCATION
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Note 10 - Defined Benefit Pension Plan and Postretirement Benefits - Continued

Postemployment Benefits - Continued

The School District sponsors various defined contribution postretirement benefit plans covering certain employees. Total contributions to these deferred compensation plans were \$708,598 for the year ended June 30, 2006.

Note 11 - Contingent Liabilities

Certain conditions may exist as of the date of the financial statements are issued, which may result in a loss to the School District but which will only be resolved when one or more future events occur or fail to occur. The School District's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceeds that are pending against the School District or unasserted claims that may result in such proceeding, the School District's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the School District's financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed.

REQUIRED SUPPLEMENTARY INFORMATION

**BOARD OF EDUCATION
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under) Final Budget</u>
Revenues				
Local sources	\$ 23,016,230	\$ 24,302,125	\$ 24,830,025	\$ 527,900
State sources	104,404,242	104,733,479	104,916,902	183,423
Federal sources	4,323,140	4,315,860	3,939,920	(375,940)
Other operating sources	12,246,431	11,952,219	11,912,727	(39,492)
Total revenues	143,990,043	145,303,683	145,599,574	295,891
Expenditures				
Instructional				
Basic programs	66,510,504	66,014,549	63,891,593	(2,122,956)
Added needs	13,286,199	13,221,202	12,751,569	(469,633)
Adult and continuing education	213,170	165,661	104,793	(60,868)
Total instructional	80,009,873	79,401,412	76,747,955	(2,653,457)
Supporting services				
Pupil services	13,172,600	12,883,396	12,767,559	(115,837)
Instructional support	6,175,834	5,943,239	5,736,147	(207,092)
General administration	1,256,035	1,075,475	975,081	(100,394)
School administration	6,937,064	6,637,306	6,857,265	219,959
Business support	3,716,982	3,424,332	3,198,858	(225,474)
Operation and maintenance	15,910,136	16,384,134	16,041,943	(342,191)
Pupil transportation	8,379,766	9,328,296	8,970,485	(357,811)
Central support	4,120,917	4,878,017	4,242,561	(635,456)
Other support	206,340	179,619	170,309	(9,310)
Total support services	59,875,674	60,733,814	58,960,208	(1,773,606)
Community services	3,245,654	3,276,638	3,202,993	(73,645)
Payments to other public schools	1,452,770	1,468,688	1,431,738	(36,950)
Other	1,314,853	1,038,702	1,036,417	(2,285)
Total expenditures	145,898,824	145,919,254	141,379,311	(4,539,943)
Other Financing Sources (Uses)				
Operating transfers - out	(3,272,283)	(3,239,643)	(3,052,327)	187,316
Net Change in Fund Balance	(5,181,064)	(3,855,214)	1,167,936	5,023,150
Fund Balance - July 1, 2005	28,937,661	28,937,661	28,937,661	-
Fund Balance - June 30, 2006	<u>\$ 23,756,597</u>	<u>\$ 25,082,447</u>	<u>\$ 30,105,597</u>	<u>\$ 5,023,150</u>

OTHER SUPPLEMENTAL INFORMATION

**BOARD OF EDUCATION
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

OTHER SUPPLEMENTAL INFORMATION
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

ASSETS

	Special Revenue Funds				Total
	School Lunch	Bookstores	Athletics	Early Retirement	
Cash and investments	\$ 131,222	\$ 42,013	\$ 31,348	\$ 1,094,690	\$ 1,299,273
Receivables					
Accounts receivable	3,517	-	300	-	3,817
Due from other governmental units	35,235	-	-	-	35,235
Due from other funds	53,061	9,320	24,998	-	87,379
Inventories	68,262	30,131	3,202	-	101,595
Prepaid expenses and other	2,163	-	-	51,114	53,277
Total assets	\$ 293,460	\$ 81,464	\$ 59,848	\$ 1,145,804	\$ 1,580,576

LIABILITIES AND FUND BALANCES

Liabilities					
Accounts payable	\$ 2,344	\$ -	\$ 20,806	\$ -	\$ 23,150
Accrued payroll and other liabilities	-	-	4,870	-	4,870
Due to other governmental units	101	218	-	-	319
Deferred revenue	38,701	-	-	-	38,701
Total liabilities	41,146	218	25,676	-	67,040
Fund Balances					
Reserved for					
Inventory	68,262	30,131	3,202	-	101,595
Prepaid expenses	2,163	-	-	51,114	53,277
Unreserved					
Designated for					
Early retirement benefits	-	-	-	1,094,690	1,094,690
Self-funded sports programs	-	-	30,970	-	30,970
Undesignated	181,889	51,115	-	-	233,004
Total fund balances	252,314	81,246	34,172	1,145,804	1,513,536
Total liabilities and fund balances	\$ 293,460	\$ 81,464	\$ 59,848	\$ 1,145,804	\$ 1,580,576

**BOARD OF EDUCATION
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

OTHER SUPPLEMENTAL INFORMATION
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Special Revenue Funds				Total
	School Lunch	Bookstores	Athletics	Early Retirement	
Revenues					
Local sources	\$ 2,933,412	\$ 102,088	\$ 837,601	\$ 46,987	\$ 3,920,088
State sources	124,167	-	-	-	124,167
Federal sources	618,459	-	-	-	618,459
Total revenues	3,676,038	102,088	837,601	46,987	4,662,714
Expenditures					
Early retirement	-	-	-	1,364,076	1,364,076
Food services	3,551,265	-	-	-	3,551,265
Bookstores	-	99,991	-	-	99,991
Athletics	-	-	2,537,235	-	2,537,235
Total expenditures	3,551,265	99,991	2,537,235	1,364,076	7,552,567
Excess of Revenues Over (Under) Expenditures	124,773	2,097	(1,699,634)	(1,317,089)	(2,889,853)
Other Financing Sources (Uses)	-	-	1,695,114	1,357,213	3,052,327
Net Change in Fund Balances	124,773	2,097	(4,520)	40,124	162,474
Fund Balances - July 1, 2005	127,541	79,149	38,692	1,105,680	1,351,062
Fund Balances - June 30, 2006	<u>\$ 252,314</u>	<u>\$ 81,246</u>	<u>\$ 34,172</u>	<u>\$ 1,145,804</u>	<u>\$ 1,513,536</u>

BOARD OF EDUCATION ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN

OTHER SUPPLEMENTAL INFORMATION SCHEDULE OF BONDED INDEBTEDNESS FOR THE YEAR ENDED JUNE 30, 2006

Year Ending June 30 th	1993 Debt Refunding Principal	1997 Debt Principal	Bond 2000 - Series I Principal	Bond 2000 - Series II Principal	2004 Debt Refunding Principal	2004 Debt Principal	2005 Debt Refunding Principal	Total
2007	\$ 2,040,000	\$ 3,000,000	\$ 4,090,000	\$ 825,000	\$ 225,000	\$ 2,525,000	\$ 85,000	\$ 12,790,000
2008	2,020,000	3,300,000	4,825,000	900,000	230,000	3,600,000	90,000	14,965,000
2009	2,505,000	3,375,000	5,500,000	1,000,000	235,000	1,700,000	90,000	14,405,000
2010	2,985,000	-	5,675,000	1,275,000	3,690,000	3,025,000	95,000	16,745,000
2011	2,955,000	-	-	1,300,000	10,055,000	4,000,000	100,000	18,410,000
2012	-	-	-	-	13,440,000	4,470,000	1,500,000	19,410,000
2013	-	-	-	-	13,425,000	4,600,000	1,590,000	19,615,000
2014	-	-	-	-	13,395,000	4,600,000	1,675,000	19,670,000
2015	-	-	-	-	13,460,000	4,600,000	1,855,000	19,915,000
2016	-	-	-	-	13,615,000	4,600,000	1,935,000	20,150,000
2017	-	-	-	-	13,560,000	4,600,000	1,930,000	20,090,000
2018	-	7,500,000	-	-	5,935,000	4,600,000	1,920,000	19,955,000
2019	-	7,500,000	-	-	5,860,000	4,600,000	1,910,000	19,870,000
2020	-	-	-	-	-	4,600,000	1,900,000	6,500,000
2021	-	-	-	-	-	-	1,885,000	1,885,000
2022	-	-	-	-	-	-	1,860,000	1,860,000
Total bonded debt	<u>\$ 12,505,000</u>	<u>\$ 24,675,000</u>	<u>\$ 20,090,000</u>	<u>\$ 5,300,000</u>	<u>\$ 107,125,000</u>	<u>\$ 56,120,000</u>	<u>\$ 20,420,000</u>	<u>\$ 246,235,000</u>

	1993 Debt Refunding	1997 Debt	Bond 2000 - Series I	Bond 2000 - Series II	2004 Debt Refunding	2004 Debt	2005 Debt Refunding	
Due date Principal payments	May 1	May 1	May 1	May 1	May 1	May 1	May 1	
Due date Interest payments	May 1 and November 1	May 1 and November 1	May 1 and November 1	May 1 and November 1	May 1 and November 1	May 1 and November 1	May 1 and November 1	
Interest rates	5.50%-5.625%	5.00%-5.875%	5.50%-5.60%	3.75%-5.00%	2.00%-5.00%	3.00%-5.00%	3.00%-5.00%	
Original issue amount	\$ 42,740,000	\$ 100,575,000	\$ 83,490,000	\$ 28,630,000	\$ 107,560,000	\$ 60,570,000	\$ 20,910,000	\$ 444,475,000

BOARD OF EDUCATION ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN

OTHER SUPPLEMENTAL INFORMATION SCHEDULE OF CAPITAL PROJECTS ACTIVITY FOR THE YEAR ENDED JUNE 30, 2006

	Public Improvement	Bond 2000	Bond 2001	Bond 2004	Total Funds
Balance - July 1, 2005	\$ 456,427	\$ 1,431,437	\$ 19,751	\$ 58,888,215	\$ 60,795,830
Revenues					
Interest	17,700	39,826	111	1,535,112	1,592,749
Expenditures					
No location					
Banking fees	668	792	489	941	2,890
Other	-	1,389	851	1,780	4,020
ACE	-	-	-	2,764,207	2,764,207
Adams	-	1,615	-	1,374,664	1,376,279
Administration building	9,680	28,092	-	329,326	367,098
Adult Education - RACE	-	-	-	113,505	113,505
Baldwin	5,131	1,645	-	124,112	130,888
Brewster	4,493	113,196	2,164	123,656	243,509
Brooklands	-	1,425	-	54,158	55,583
Delta Kelly	5,120	-	-	168,231	173,351
Facility operations	-	4,515	-	4,198,956	4,203,471
Hamlin	-	82,135	-	230,016	312,151
Hampton	-	1,535	-	84,629	86,164
Hart	-	2,421	-	524,312	526,733
Hugger	4,638	93,085	2,164	28,325	128,212
Long Meadow	3,836	21,299	-	127,372	152,507
McGregor	4,531	-	-	50,093	54,624
Meadow Brook	3,679	17,818	9,866	14,004	45,367
Musson	4,286	90,769	2,164	61,732	158,951
North Hill	3,864	-	-	49,879	53,743
Reuther	-	-	-	11,328,188	11,328,188
Rochester	-	1,615	-	1,339,472	1,341,087
Stoney Creek	-	20,000	-	818,317	838,317
Transportation	-	-	-	112,972	112,972
University Hills	3,688	255,425	2,164	42,068	303,345
Van Hoosen	-	-	-	11,201,283	11,201,283
West	-	21,566	-	39,486	61,052
Total expenditures	53,614	760,337	19,862	35,305,684	36,139,497
Balance - June 30, 2006	<u>\$ 420,513</u>	<u>\$ 710,926</u>	<u>\$ -</u>	<u>\$ 25,117,643</u>	<u>\$ 26,249,082</u>

**ROCHESTER COMMUNITY
SCHOOL DISTRICT, MICHIGAN**

**SINGLE AUDIT
REPORTING PACKAGE**

JUNE 30, 2006



To the Board of Education of the
Rochester Community School District, Michigan

We have audited the financial statements of the governmental activities, major funds, and the aggregate remaining fund information of the Rochester Community School District, Michigan, as of and for the year ended June 30, 2006, and have issued our report thereon dated October 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rochester Community School District, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the financial statements of the governmental activities, major funds, and the aggregate remaining fund information of the Rochester Community School District, Michigan are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 02-1 and 02-2.

DOEREN MAYHEW

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Doeren Mayhew". The signature is fluid and cursive, with the first name "Doeren" and last name "Mayhew" clearly distinguishable.

DOEREN MAYHEW

October 20, 2006
Troy, Michigan



To the Board of Education of the
Rochester Community School District, Michigan

Compliance

We have audited the compliance of the Rochester Community School District, Michigan with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The Rochester Community School District, Michigan's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Rochester Community School District, Michigan's management. Our responsibility is to express an opinion on the Rochester Community School District, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Rochester Community School District, Michigan's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Rochester Community School District, Michigan's compliance with those requirements.

As described in item 02-1 in the accompanying Schedule of Findings and Questioned Costs, the Rochester Community School District, Michigan did not comply with requirements pursuant to OMB Circular A-87, regarding supporting documentation of the distribution of salaries or wages that are applicable to Title I for employees working on multiple activities or cost objectives. Compliance with such requirements is necessary.

As described in item 02-2 in the accompanying Schedule of Findings and Questioned Costs, the Rochester Community School District, Michigan did not comply with requirements regarding allocation of funds to eligible school attendance areas that are applicable to Title I. Compliance with such requirements is necessary.

DOEREN MAYHEW
Compliance - Continued

In our opinion, except for the noncompliance described in the preceding paragraphs, the Rochester Community School District, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the Rochester Community School District, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Rochester Community School District, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Rochester Community School District, Michigan. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Rochester Community School District, Michigan. The combining and individual non-major fund financial statements and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specific parties.



DOEREN MAYHEW

October 20, 2006
Troy, Michigan

**BOARD OF EDUCATION
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2006**

SECTION I

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes X No

Reportable condition(s) identified that are not considered to be material weakness(es)? Yes X None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes X No

Reportable condition(s) identified that are not considered to be material weakness(es)? X Yes None reported

Type of auditor's report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? X Yes No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553 and 10.555	Child Nutrition Cluster
84.010	Title I
84.027 and 84.173	Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes No

**BOARD OF EDUCATION
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2006**

SECTION II

FINDINGS - FINANCIAL STATEMENTS AUDIT

None noted.

**BOARD OF EDUCATION
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

SECTION III

FINDINGS - FEDERAL AWARDS AUDIT

02-1 Reportable Condition

Finding Type

Material noncompliance.

Federal Program

U.S. Department of Education, passed through the Michigan Department of Education, Title I - Educationally Deprived Children, CFDA #84.010.

Criteria

Pursuant to OMB Circular A-87 where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation.

Condition

During our testing, we noted that none of the employees, who worked on multiple Federal activities or cost objectives for the Title I program, had personnel activity reports or equivalent documentation to support the distribution of their salaries or wages.

Recommendation and Response

We recommend, and the Rochester Community School District, Michigan concurs, that during the school year, each employee who works on multiple Federal activities or cost objectives, will prepare and sign a personnel activity report or equivalent documentation which supports the distribution of their salaries or wages on at least a monthly basis.

**BOARD OF EDUCATION
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2006**

SECTION III

FINDING NUMBER 02-1

Responsible Individual: John Dietz

Corrective Action Planned: Management will ensure that employees, who work on multiple Federal activities or cost objectives, will prepare and sign a personnel activity report or equivalent documentation which supports the distribution of their salaries or wages on at least a monthly basis.

Management's Response: Management agrees with the finding and the recommendation.

Anticipated Completion Date: June 30, 2007

**BOARD OF EDUCATION
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

SECTION III

FINDINGS - FEDERAL AWARDS AUDIT

02-2 Reportable Condition

Finding Type

Material noncompliance.

Federal Program

U.S. Department of Education, passed through the Michigan Department of Education, Title I - Educationally Deprived Children, CFDA #84.010.

Criteria

Pursuant to the 2006 Compliance Supplement, Part IV, Section B, Eligible Attendance Areas, Title I funds may be expended only in eligible attendance areas. School allocations are based on low-income counts, starting with the highest poverty school, until funds are exhausted. Based on eligible school attendance areas, the minimum amount that must be allocated per low-income child is 125% of the funds received by the District for each low-income child in the District.

Condition

During our testing, we noted that a non-eligible school attendance area received Title I funds.

Cause and Effect

Procedures in place to determine eligible school attendance areas were not followed. The funds allocated to the ineligible school attendance area totaling \$40,234 are subject to disallowance, are, therefore, considered a questioned cost.

Recommendation and Response

We recommend, and the Rochester Community School District, Michigan concurs, that an eligible attendance area will be determined based on the concentration of low-income children being equal to or greater than the average for the District or for a grade span. Allocation of funds will be based on low-income counts starting with the highest poverty school, until funds are exhausted. Based on eligible school attendance areas, the minimum amount that must be allocated per low-income child is 125% of the funds received by the District for each low-income child in the District.

**BOARD OF EDUCATION
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2006**

SECTION III

FINDING NUMBER 02-2

Responsible Individual:	John Dietz
Corrective Action Planned:	Management will allocate funds to eligible school attendance areas based on low-income counts starting with the highest poverty school, until funds are exhausted.
Management's Response:	Management agrees with the finding and the recommendation.
Anticipated Completion Date:	June 30, 2007

BOARD OF EDUCATION ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2006

Federal Grantor/ Pass-Through Grantor Program Title/Grantor's Number	Federal CFDA Number	Program Award/ Amount	Accrued (Deferred) Revenue at 7/1/05	Prior Year Expenditures	Adjustments	Current Year Receipts	Expenditures	Accrued (Deferred) Revenue at 6/30/06
Clusters:								
Child Nutrition Cluster - U.S. Department of Agriculture - Passed Through the Michigan Department of Education:								
National School Breakfast Program:	10.553							
2004-2005		\$ 60,844	\$ 2,384	\$ 60,844	\$ (9)	\$ 2,375	\$ -	\$ -
2005-2006		<u>70,606</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>68,121</u>	<u>70,606</u>	<u>2,485</u>
Total National School Breakfast Program		131,450	2,384	60,844	(9)	70,496	70,606	2,485
National School Lunch Program:	10.555							
2004-2005		380,783	10,923	380,783	10	10,933	-	-
2005-2006		<u>431,519</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>422,099</u>	<u>431,519</u>	<u>9,420</u>
Total National School Lunch Program		<u>812,302</u>	<u>10,923</u>	<u>380,783</u>	<u>10</u>	<u>433,032</u>	<u>431,519</u>	<u>9,420</u>
Total Child Nutrition Cluster		943,752	13,307	441,627	1	503,528	502,125	11,905
Special Education Cluster - U.S. Department of Education - Pass Through Oakland County ISD:								
IDEA:	84.027							
Project number 40450		1,677,931	115,552	1,677,931	(1)	115,551	-	-
Project number 50450		2,035,133	442,390	1,521,551	-	679,777	513,582	276,195
Project number 60450		<u>2,183,999</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>958,539</u>	<u>2,058,074</u>	<u>1,099,535</u>
Total IDEA		5,897,063	557,942	3,199,482	(1)	1,753,867	2,571,656	1,375,730
Preschool Incentive:	84.173							
Project number 50460		98,821	26,819	87,839	(1)	26,818	10,982	10,982
Project number 60460		<u>98,581</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>42,381</u>	<u>90,521</u>	<u>48,140</u>
Total Preschool Incentive		197,402	26,819	87,839	(1)	69,199	101,503	59,122

See Notes to the Schedule of Expenditures of Federal Awards

BOARD OF EDUCATION ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2006

Federal Grantor/ Pass-Through Grantor Program Title/Grantor's Number	Federal CFDA Number	Program Award/ Amount	Accrued (Deferred) Revenue at 7/1/05	Prior Year Expenditures	Adjustments	Current Year Receipts	Expenditures	Accrued (Deferred) Revenue at 6/30/06
Special Education Cluster - U.S. Department of Education - Pass Through Oakland County ISD - Continued:								
Building Capacity Grant: Project Name - Action Planning Phase	84.027	\$ 21,749	\$ 11,039	\$ 21,749	\$ -	\$ 11,039	\$ -	\$ -
OISD Transition Grants: Project number 60450	84.027A	550	-	-	-	-	527	527
Total Special Education Cluster		6,116,764	595,800	3,309,070	(2)	1,834,105	2,673,686	1,435,379
Medicaid Cluster - U.S. Department of Health and Human Services - Pass Through Oakland County ISD:								
Medicaid Outreach Program: 2005-2006	93.778	-	-	-	-	1,430	5,392	3,962
Total Medicaid Cluster		-	-	-	-	1,430	5,392	3,962
Other Federal Awards:								
U.S. Department of Education:								
Passed Through the Michigan Department of Education:								
Title I:	84.010							
Project number 041530/0405		78,300	11,139	78,300	-	11,139	-	-
Project number 051530/0405		447,881	183,077	431,345	-	183,077	-	-
Project number 051530/0506		16,535	-	-	-	-	16,535	16,535
Project number 061530/0506		452,960	-	-	-	345,175	452,960	107,785
Total Title I		995,676	194,216	509,645	-	539,391	469,495	124,320

See Notes to the Schedule of Expenditures of Federal Awards

BOARD OF EDUCATION ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2006

Federal Grantor/ Pass-Through Grantor Program Title/Grantor's Number	Federal CFDA Number	Program Award/ Amount	Accrued (Deferred) Revenue at 7/1/05	Prior Year Expenditures	Adjustments	Current Year Receipts	Expenditures	Accrued (Deferred) Revenue at 6/30/06
Other Federal Awards - Continued:								
U.S. Department of Education - Continued:								
Passed Through the Michigan Department of Education - Continued:								
Title II, Part D - Technology Literacy Challenge:	84 318	\$ 8,450	\$ -	-	\$ -	\$ 8,450	\$ 8,450	\$ -
Project number 064290/0506								
Total Title II, Part D - Technology Literacy Challenge		8,450	-	-	-	8,450	8,450	-
Title V:								
Project number 50250/0405	84 298	8,710	2,486	2,486	-	2,486	-	-
Project number 50250/0506		6,223	-	-	-	6,223	6,223	-
Project number 60250/0506		5,897	-	-	-	-	5,534	5,534
Total Title V		20,830	2,486	2,486	-	8,709	11,757	5,534
Limited English - Title III - Limited English Proficiency:								
Grant 40580/0405	84 365A	17,519	526	17,519	-	526	-	-
Grant 40580/0405		96,940	26,524	69,552	-	26,524	-	-
Grant 50580/0506		27,587	-	-	-	27,587	27,587	-
Grant 60580/0506		180,023	-	-	-	41,409	103,913	62,504
Total Title III		322,069	27,050	87,071	-	96,046	131,500	62,504
Improving Teacher Quality - Title IIA:								
040520/0405	84 367	99,343	49,890	99,343	-	49,890	-	-
050520/0405		298,080	58,144	184,380	2	58,146	-	-
050520/0506		113,698	-	-	-	-	113,698	113,698
050520/0506		296,020	-	-	-	80,997	140,885	59,888
Total Title IIA		807,141	108,034	283,723	2	189,033	254,583	173,586

See Notes to the Schedule of Expenditures of Federal Awards

BOARD OF EDUCATION ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2006

Federal Grantor/ Pass-Through Grantor Program Title/Grantor's Number	Federal CFDA Number	Program Award/ Amount	Accrued (Deferred) Revenue at 7/1/05	Prior Year Expenditures	Adjustments	Current Year Receipts	Expenditures	Accrued (Deferred) Revenue at 6/30/06
Other Federal Awards - Continued:								
U.S. Department of Education - Continued:								
Passed Through the Michigan Department of Education - Continued:								
Safe and Drug-free Schools and Communities:								
	84.186							
Project number 042860/0405		\$ 14,035	\$ 14,035	\$ -	\$ -	\$ 14,035	\$ -	\$ -
Project number 052860/0405		49,862	31,362	-	-	31,362	-	-
Project number 052860/0506		18,500	-	-	-	-	18,500	18,500
Project number 062860/0506		49,456	-	-	-	-	36,182	36,182
Total Safe and Drug-free Schools and Communities								
		131,853	45,397	-	-	45,397	54,682	54,682
Adult Basic Education:								
	84.002							
Project number 051130/510535		81,193	9,302	-	-	9,302	-	-
Project number 061130/610536		65,000	-	-	-	29,774	65,000	35,226
Project number 061120/6500115		23,700	-	-	-	17,495	23,700	6,205
Project number 061130/610536		23,000	-	-	-	-	18,734	18,734
Total Adult Basic Education								
		192,893	9,302	72,499	-	56,571	107,434	60,165
Total Noncluster Programs Passed Through the Michigan Department of Education								
		2,478,912	386,485	1,000,821	-	943,597	1,037,901	480,791
Carl Perkins Vocational Grant:								
	84.048A							
Project number 053520/5012-18		59,779	52,316	59,779	-	52,316	-	-
Project number 063520/6012-18		56,007	-	-	-	46,138	56,007	9,869
Total Noncluster Programs Passed Through the Oakland County ISD								
		115,786	52,316	59,779	-	98,454	56,007	9,869

See Notes to the Schedule of Expenditures of Federal Awards

**BOARD OF EDUCATION
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

<u>Federal Grantor/ Pass-Through Grantor Program Title/Grantor's Number</u>	<u>Federal CFDA Number</u>	<u>Program Award/ Amount</u>	<u>Accrued (Deferred) Revenue at 7/1/05</u>	<u>Prior Year Expenditures</u>	<u>Adjustments</u>	<u>Current Year Receipts</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue at 6/30/06</u>
Other Federal Awards - Continued:								
U.S. Department of Agriculture:								
Passed Through the Michigan Department of Education:								
Entitlement commodities - 2005-2006	10.550	\$ 113,128	\$ -	\$ -	\$ -	\$ 113,128	\$ 113,128	\$ -
Bonus commodities - 2005-2006		3,205	-	-	-	3,205	3,205	-
Total Passed Through the Michigan Department of Education		116,333	-	-	-	116,333	116,333	-
Food Distribution - Child and Adult Care Food Program:								
2005-2006	10.558	4,612	-	-	-	4,612	4,612	-
Total U.S. Department of Agriculture Noncluster Program		4,612	-	-	-	4,612	4,612	-
U.S. Department of Health and Human Services:								
Passed Through the Oakland Livingston Human Service Agency:								
Headstart:	93.600							
Project number 99019/0540		134,441	25,787	72,531	-	25,787	-	-
Project number 99019/0540		135,785	-	-	-	63,254	63,254	-
Project number 99019/0540		135,785	-	-	-	45,778	70,374	24,596
Total U.S. Department of Health and Human Services Noncluster Programs		406,011	25,787	72,531	-	134,819	133,628	24,596

See Notes to the Schedule of Expenditures of Federal Awards

**BOARD OF EDUCATION
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/ Pass-Through Grantor Program Title/Grantor's Number	Federal CFDA Number	Program Award/ Amount	Accrued (Deferred) Revenue at 7/1/05	Prior Year Expenditures	Adjustments	Current Year Receipts	Expenditures	Accrued (Deferred) Revenue at 6/30/06
Other Federal Awards - Continued:								
U.S. Department of Homeland Security - Passed Through the Michigan State Police - Emergency Management:								
2003 State Homeland Security Grant Part II - School Equipment	97.004	\$ 29,348	\$ -	\$ -	\$ -	\$ 28,693	\$ 28,693	\$ -
Total Federal Awards		\$ 10,211,518	\$ 1,073,695	\$ 4,883,828	\$ 1	\$ 3,665,571	\$ 4,558,377	\$ 1,966,502

See Notes to the Schedule of Expenditures of Federal Awards

**BOARD OF EDUCATION
ROCHESTER COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance and federal cost-reimbursement contracts of the Rochester Community School District, Michigan. Management has reported the expenditures in the Schedule of Expenditures of Federal Awards equal to those amounts reported in the annual cost reports. The Rochester Community School District, Michigan receives federal awards indirectly through pass-through entities.

Except for the current year receipts column, which is presented on the cash basis of accounting, federal program expenditures included in the accompanying schedule are presented on the modified accrual basis of accounting. The modified accrual basis of accounting is also used for the general purpose financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Inventory values are based on the USDA value for donated food commodities. Reported commodity receipts values were computed using the Recipient Entitlement Balance Report and other district records. Spoilage or pilferage, if any, is included in expenditures.

Note 2 - Major Programs

Major programs are identified in the Summary of Auditor's Results section of the Schedule of Findings and Questioned Costs.

Note 3 - Grant Section Auditor's Report

Management has utilized the Grant Section Auditor's Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards. The amounts on the R7120 are included on the Schedule of Expenditures of Federal Awards.

Note 4 - Adjustment and Transfers

During the year ended June 30, 2006, adjustments of \$1 and \$2 related to minor adjustments to grant expenditures and related reimbursements for the Child Nutrition and Special Education Clusters, respectively.